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Not Fit For Print



Lose Money on Each Issue But Make It Up With Volume???

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Back in the 50's a big Ford dealer in Chicago used to claim that he was willing to lose a little money on each car he sold and he would make it up on the high volume his dealership would generate. He became the biggest Ford dealer in the country but not for the reasons you might think. He actually could lose a little and still make a profit because he got bonus money from Ford Motor Company based on his extraordinary sales numbers. The bonus money was greater than the discounts so in the end he made a profit. The practice of dealer rebates went on for a long time. Then the factories introduced the direct to the customer rebates that have become so prevalent in the industry.

What does all this have to do with serials and electronic publishing? Plenty! First of all there is a basic business lesson here and that is that for a company to stay in business someone must pay for everything and leave room for a profit. The end consumer doesn't have to pay all of the costs nor does the manufacturer have to provide all the incentives but some combination of the producer, the distributor and the consumer must contribute their fair share toward keeping the system profitable. Otherwise, assuming good management, the company simply cannot continue to provide services and products. This leads to an equation of sorts. An equation is a condition of equilibrium where each part balances in order to create a whole. Today's companies must offer something of value to the end user and the members of the distribution chain that helps reach the consumer. The distributor must offer something of added value to both the consumer and the manufacturer. The consumer must wisely evaluate the services of the distributor and the quality of the product since service is such a major component of most transactions. For example take your daily newspaper. Even if the content is just what you like to read each morning over your cup of coffee, it is of lesser value if the paper doesn't arrive until noon. Here the distribution arm of the equation lets us down and severely damages the value of the product. Even though you did get the product, you might still feel you have been badly served because of the time factor. But, because you paid the newspaper directly and they used a third party to deliver the paper, you have no direct recourse with the failed distribution process. The newspaper had little choice but to use a distributor since they are not able to be both the publisher and the distributor for all clients in all areas. As a result, you might become unhappy with the product because of the distribution.

The Electronic Product

Electronic publications need distribution as does print. The need for value-added services is just as great in both cases. But, the arithmetic is very different in electronic delivery systems. For your print versions of the daily paper or your journal subscriptions, the producer or manufacturer gets most of the money and the distributor or agent gets a small percentage for their role. With electronic delivery, the distributors, **CompuServe**, **America OnLine**, **Prodigy** and others get the lions' share and give a little to the producer. Since business lesson one, above, was that all costs must be covered including a profit, this change in the basic economics is going to have a profound effect on what is going to be available. Consumers can now see what the cost of distribution is and not know what the cost of the publication might be since the only bill they get is for the distribution. Also the producer has very high costs but gets very low revenue and now must "make it up in the volume" as in the case of the Ford dealer but without the benefit of rebates. Now if you throw in the lack of paying advertisers in the electronic version, there is

such a dramatic imbalance in the old equation that it no longer applies. It is no wonder that publishers are in a quandary and concerned about where the money to cover costs will come from and if there will ever be a profit from electronic publications. When you consider how many old monks were displaced by the printing press it must cross the minds of today's publishers that maybe they too will have a new future ahead of them. After all, the option of every consumer ordering direct does not exist anymore. Can you imagine logging on to each publisher individually? Distribution will be in the driver's seat and subscription agents are a likely source of supply for the electronic versions as well as the print you now get through them.

The Cable TV Lesson

When cable TV first was introduced, there was concern about the high cost of wiring all of the communities and how long it would take to recover that cost. There were also questions about content and programming. There simply weren't enough programs to fill the pipeline of expensive wires crisscrossing America. Now it looks very much like that expensive wire is going to be very profitable, as it carries far more than just infomercials and soaps with an occasional x-rated movie thrown in for good measure. It now looks like the real profit will be made by the carriers not the producers and that is a very different scenario than was envisioned twenty years ago. The phone wires aren't big enough to carry the data and believe me, the RBOC's aren't about to give up without a fight or a buy out. Right now, the online services are spending their little hearts out trying to get you hooked up so that they can deliver all this product that is beginning to crop up. They will give you the software, some free time and rewards for sending your friends to sign up. But since the online services rely on slow delivery phone lines, they will have to find alternative partners for delivery. Once again, I think we will see the cable capacity put to better use than it currently enjoys.

What Can You Expect?

New products, new entrants to the market, and new pricing will most certainly be some of the outcomes of this turmoil. **OCLC** with their **Online Journal of Current Clinical Trials** which has no print counterpart is certainly an example of a new entrant, new product and new pricing and since **OCLC** is the distributor as well as a contributor to the product itself that is also a new role. Newspaper and magazine publishers are rushing into online services with a sort of panic that reveals their fear of being left behind. They are doing this knowing full well that they will lose money, yet when less than 30% of people under age 30 read a daily newspaper, they don't feel they have a choice. The Nintendo generation has struck with full force. The challenge for librarians will be recognizing that the relationship among them and the distributors and producers is not adversarial but rather a vital part of an equation. The challenge for distributors or agents will be the timing and correct pricing of new services and delivery methods that does its part to keep the equation in balance. The recent **Forbes** magazine article about **Faxon** makes it clear that good management, appropriate investment, and focus on the customer will be required in abundance as we weather the changes in the industry. If the **CompuServes** and **AOLs** are any indicator of the future, the role of the agent/distributor will be more important than ever as customers demand that their "daily paper be at the doorstep in time for coffee."